

Minutes of Audit Committee Meeting of November 15, 2016

**One Twin Pines Lane
City Hall, Suite 360
CALL TO ORDER 10:31 A.M.**

ROLL CALL

COMMITTEE MEMBERS PRESENT: Violet, Stone, Hurt

STAFF PRESENT: Finance Director Fil, Controller Leung, Special Consultant Golestan, City Manager Scoles, Management Analyst Voelker

OTHERS PRESENT: Members of the public, Mark Wong, Principal, Maze & Associates (Invited); Grace Zhang, Manager, Maze & Associates (Invited)

ORAL COMMUNICATION/PUBLIC COMMENTS

Tim Strinden, Belmont resident, recommended Belmont's public records provide more information on street pavement spending as it relates to Measure I. He requested that the Committee take action to ensure that this information is provided.

Perry Kennan, Belmont resident, recommended that the City rotate auditing firms and expressed his disappointment in his questions being unanswered by the City's current firm.

CONSENT CALENDAR

ACTION: Moved by Committee Member Stone, seconded by Committee Member Hurt, the June 17th meeting minutes were noted and filed.

Tim Strinden, Belmont resident, commented on his dissatisfaction with the minutes as presented, noting that material he provided stating his lack of support for the City's annual Budget was not referenced.

Perry Kennan, Belmont resident, stated that the Audit Committee minutes are not detailed enough. He also commented on his disagreement with the term Benefit Stabilization in the City's Budget and CAFR.

OTHER BUSINESS

Fiscal Year 2016 Audit Results

Director Fil introduced the City's Special Consultant Golestan and Controller Leung, both of whom assisted with producing the City's Comprehensive Annual Financial Report (CAFR) this year. He went on to clarify the roles in this process, noting that the City is responsible for producing the financial statements, and the independent auditor opines on whether the information is fairly

presented. The Audit Committee oversees this process, provides feedback to Council and provides a check and balance that the information is indeed fairly presented.

Director Fil reviewed the results, noting that, overall, operations were stable in 2016. He presented the ending fund balance, which was slightly below estimate, mainly due to revenue shortfalls. Expenditures were controlled. He also spoke briefly on the lingering challenge of the deferred maintenance of infrastructure, alerting the Committee that, in the case of a major failure, it could destabilize the City's General Fund in the near future. He added that increase in revenues from the recently approved Measure I will help. Director Fil also spoke briefly on the City's robust internal controls and noted that the City is a GFOA best practice city.

Director Fil went on to note that retirement obligations (OPEB) are on the rise, but that this was expected. Discussion ensued.

Special Consultant Golestan provided an overview, highlighting new items such as variances and the separation of funds from Sewer Collection and Sewer Treatment Funds.

Principal Mark Wong began his required communication to the Audit Committee, providing a report on the City's internal controls and opining on the financial statements. He reviewed the Memorandum on Internal Control and noted that an unmodified opinion was issued, reporting no material weaknesses or significant deficiencies found in this year's audit.

Principal Wong stated that there aren't any notable changes in accounting standards (GASBs) expected until fiscal year 2018 when GASB 75 will be implemented. GASB 75 will impact the City's OPEB reporting so that it coincides with CalPERS' pension methodology. Additional liabilities will be required to be reported. Director Fil provided his criticism of GASB 75, noting that it addresses the reporting side, but not the funding side. He stated that the City will continue its practice of funding the ARC and will go beyond the GASB 75 requirement, funding and reporting liabilities and potential growth, with the objective of eventually retiring that obligation. Discussion ensued regarding liabilities, use of reserves and economic cycles.

In response to Committee Member Stone's question, Director Fil stated that Belmont has a limited tax base, leaving a great exposure to volatility of revenue sources. As such, it is a large objective of the City to diversify revenues; he referenced the Downtown Specific Plan.

Chair Violet inquired as to how the audit went overall. Principal Wong acknowledged that there were some challenges with recent, significant staffing changes in the Finance Department, but that overall, it went very well and they found no issues. Manager Zhang noted that the firm appreciates Belmont's well-established internal controls and states that its whole financial structure provides a good foundation for a successful audit. Discussion continued with Principal Wong fielding a few questions from the Committee.

In response to Committee Member Stone's question, Director Fil stated that the City isn't necessarily in better shape than anticipated; there is still a lot of work to do and resources were limited this year.

Committee Member Stone congratulated staff on a great job and another outstanding CAFR despite several staffing obstacles this year. Committee Member Hurt noted that the City is still well within state-mandated deadlines of issuing the CAFR, even though it was issued a little later than usual this year. Manager Zhang noted that, even with the delay, Belmont is still among the first of their clients to issue its CAFR.

Tim Strinden, Belmont resident, objected with the statement that the City's infrastructure is a crisis to the City.

Perry Kennan, Belmont resident, commented terminology consistency and requested that Committee Member Hurt ask Principal Wong if any other cities use "Benefit Stabilization" as a fund description in their documents. He also inquired as to other OPEB insurance benefits for retirees and as to the publish date of the CAFR.

In response to Chair Violet's question, Principal Wong stated that Benefit Stabilization is a reasonable description, as the City provides a footnote explanation of the term. He added that cities use various terminology for this item.

In response to Committee Member Hurt's question, Director Fil stated that staff had no disagreements with the auditor's findings. In response to Chair Violet's offer, Principal Wong stated that he saw no need to meet with the Audit Committee privately to discuss any matters of concern.

The Audit Committee agreed that the CAFR and all related reports were noted and filed.

Consideration of Draft Audit Committee Annual Report

The Committee reviewed the draft staff report provided by Chair Violet. Committee Member Hurt suggested that the number of times the Committee has met be added to the report

Tim Strinden, Belmont resident, opined that the CAFR should not be approved.

ACTION: Moved by Committee Member Stone, seconded by Committee Member Hurt, by unanimous voice vote, the annual Audit Committee report was recommended for approval by the City Council.

Financial Policy Updates

Director Fil gave a brief update of the City's financial policies. He explained that the financial policies are part of the City's governance and are used as a guide in following best practices. They include best practices and advisories from the Government Finance Officers Association (GFOA), the City's Investment Policy, and the City's Procurement Policy. Director Fil clarified that the financial policies are not prescriptive or required, but that they do serve as a standard by which a best practice city, such as Belmont, endeavors to follow.

Director Fil stated that a memo to the Audit Committee was included in their packet, and explained that all newly published and updated GFOA best practices and advisories, which are being added to the City's financial policies, are incorporated into a list in the appendix to the memo for the Committee's review. Staff will update the City's website accordingly. Discussion ensued.

ACTION: Moved by Committee Member Hurt, seconded by Committee Member Stone, by unanimous voice vote, the Audit Committee recommended inclusion of the Updated Financial Policies in the Annual Audit Committee Report.

COMMITTEE UPDATES AND STAFF ITEMS

Meeting Calendar

Chair Violet noted that date and time of the next scheduled meeting in late February or March is to be determined.

Director Fil thanked the auditors and noted that Supervisor Smith did a superb job and was very helpful and cooperative. Chair Violet thanked the staff again, in addition to former Deputy Finance Director Lazzari for all of her long hours of preparation work prior to her resignation from the City.

ADJOURNMENT 11:34 a.m.

**Thomas Fil
Finance Director**